Economic and Revenue Update

A Briefing for the

Senate Finance Committee

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Topics for Discussion

- National and State Economic Indicators
- September Year-to-Date Revenue Collections, Fiscal Year 2015
- Next Steps

National and State Economic Indicators

- Current national indicators suggest the economy is continuing its expansion.

- According to the third estimate, real GDP grew by an annualized rate of 4.6 percent in the second quarter of 2014, reversing the 2.1 percent decline in the first quarter.

- Payroll employment rose by 248,000 jobs in September, while the August gain was revised up from 142,000 to 180,000.
  - Year-to-date, monthly job gains have averaged a solid 227,000.

- Initial claims for unemployment fell by 1,000 to 287,000 during the week ending October 4th.
  - The four-week moving average fell by 7,250 to 287,750, a new cyclical low.

- In August, payroll employment in Virginia grew by 0.4 percent from August of last year.
  - Compared to last year, employment increased 0.4 percent in Northern Virginia, 1.8 percent in Richmond-Petersburg and was flat in Hampton Roads.

- The unemployment rate in the Commonwealth rose 0.3 percentage point to 5.6 percent in August. The unemployment rate has increased in three of the last four months and is the same as a year ago.

National and State Economic Indicators

- Activity in the manufacturing sector slowed in September, with the Institute of Supply Management index falling from 59.0 to 56.6; however, the index remains well above the expansionary threshold of 50.0.

- The Conference Board's index of leading indicators rose 0.2 percent in August following a 1.1 percent increase in July. The index has increased in twelve of the last thirteen months.

- The Conference Board's index of consumer confidence fell from 93.4 to 86.0 in September, with the expectations component driving the decline.

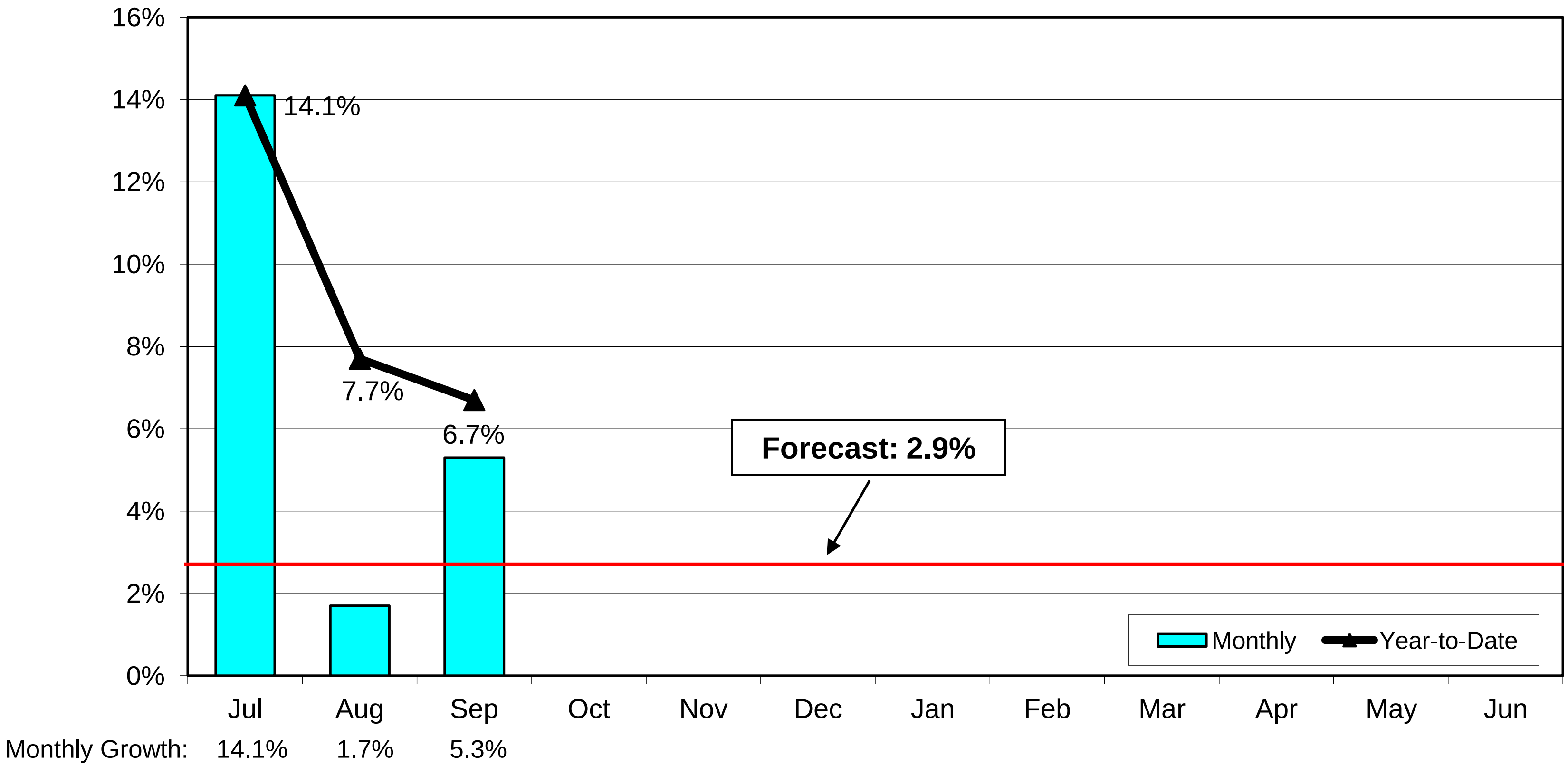
- The CPI fell 0.2 percent in August and stands 1.7 percent above August 2013.
  - Core inflation (excluding food and energy prices) was flat in August.

- The saving rate was 5.4 percent in August, compared with 5.6 percent in July.

- The Federal Reserve announced at its September meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and will continue winding down its quantitative easing program.

Growth in Total General Fund Revenue Collections

FY15 Monthly and Year-to-Date

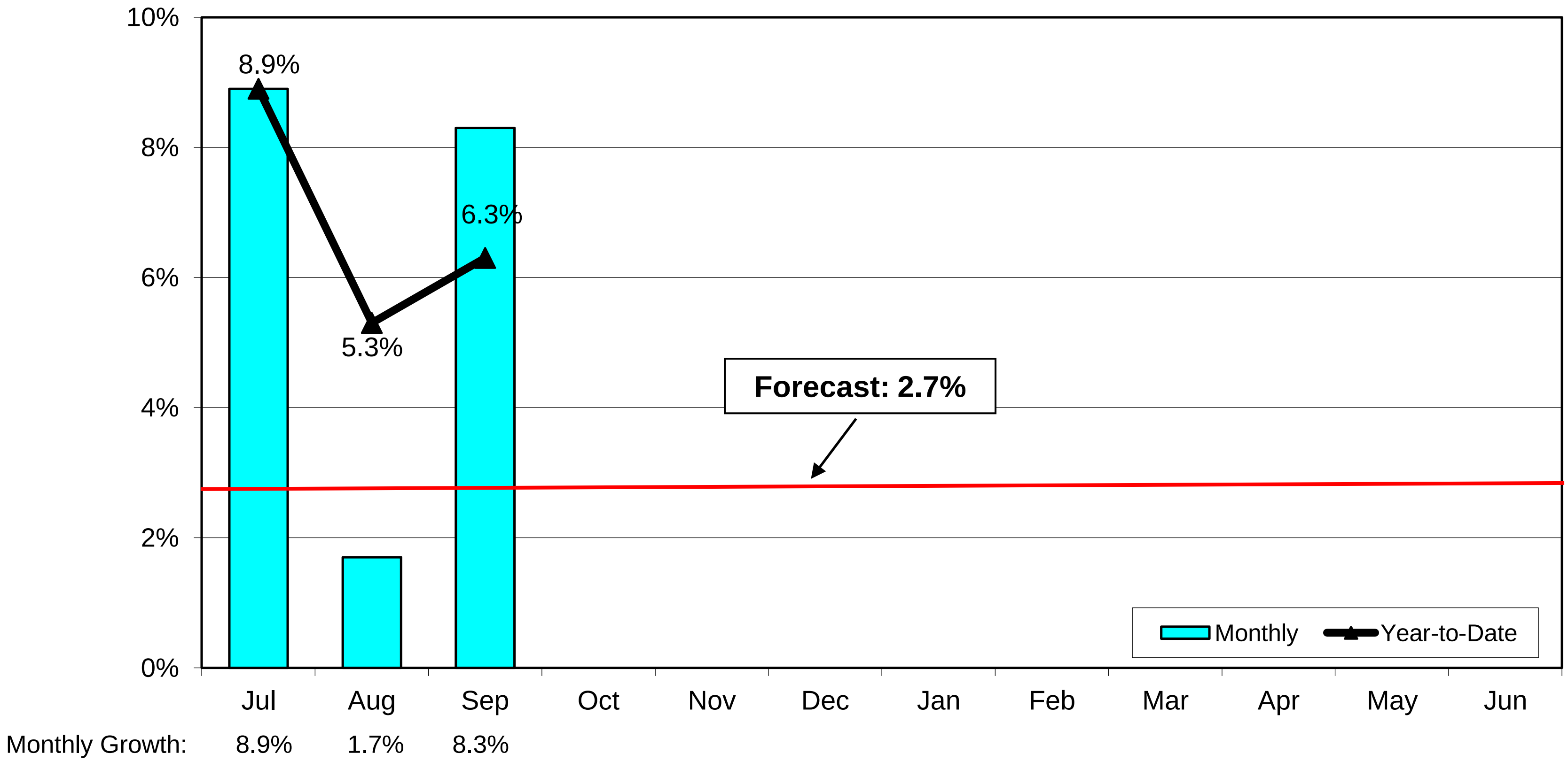


- Total general fund revenues increased 5.3 percent in September, driven by growth in individual withholding, corporate and sales tax payments.

- On a year-to-date basis, total revenues increased 6.7 percent, ahead of the annual forecast of 2.9 percent growth.
  - Adjusting for HB2313 program, total revenues grew 6.3 percent through September, ahead of the economic-base forecast of 2.8 percent growth.

Growth in Withholding Tax Collections

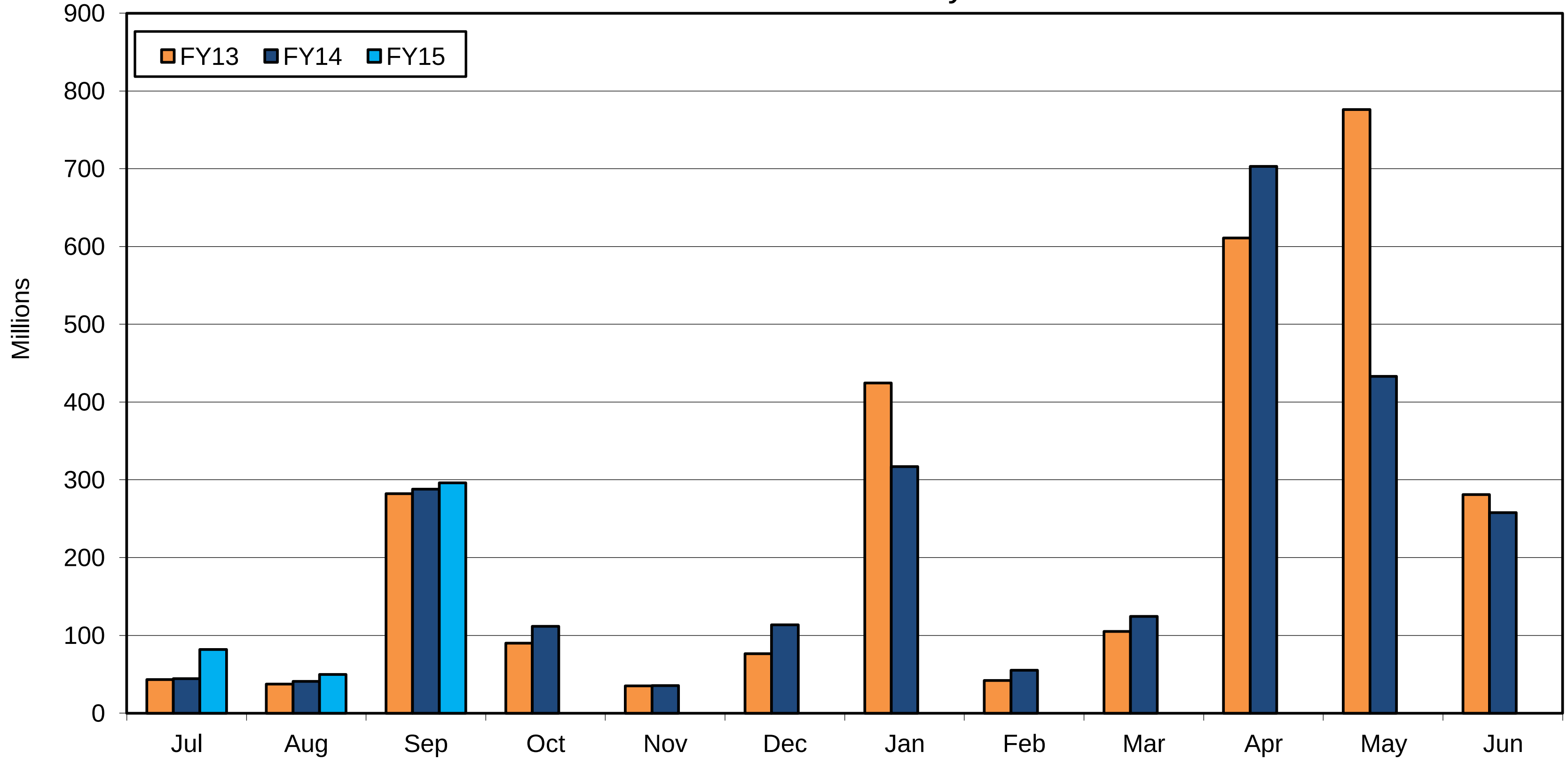
FY15 Monthly and Year-to-Date



- Collections of payroll withholding taxes increased 8.3 percent in September with one additional deposit day than September of 2013.

- Year-to-date, withholding collections increased 6.3 percent compared with the same period last year, ahead of the projected annual growth rate of 2.7 percent.

Nonwithholding Tax Collections



- The first individual estimated payment in fiscal year 2015 was due in September. Total monthly nonwithholding collections increased 2.8 percent.

- Year-to-date, collections through the first quarter of fiscal year 2015 were $427.4 million compared with $372.8 million in the same period last year, an increase of 14.7 percent and ahead of the annual estimate of 6.3 percent growth.

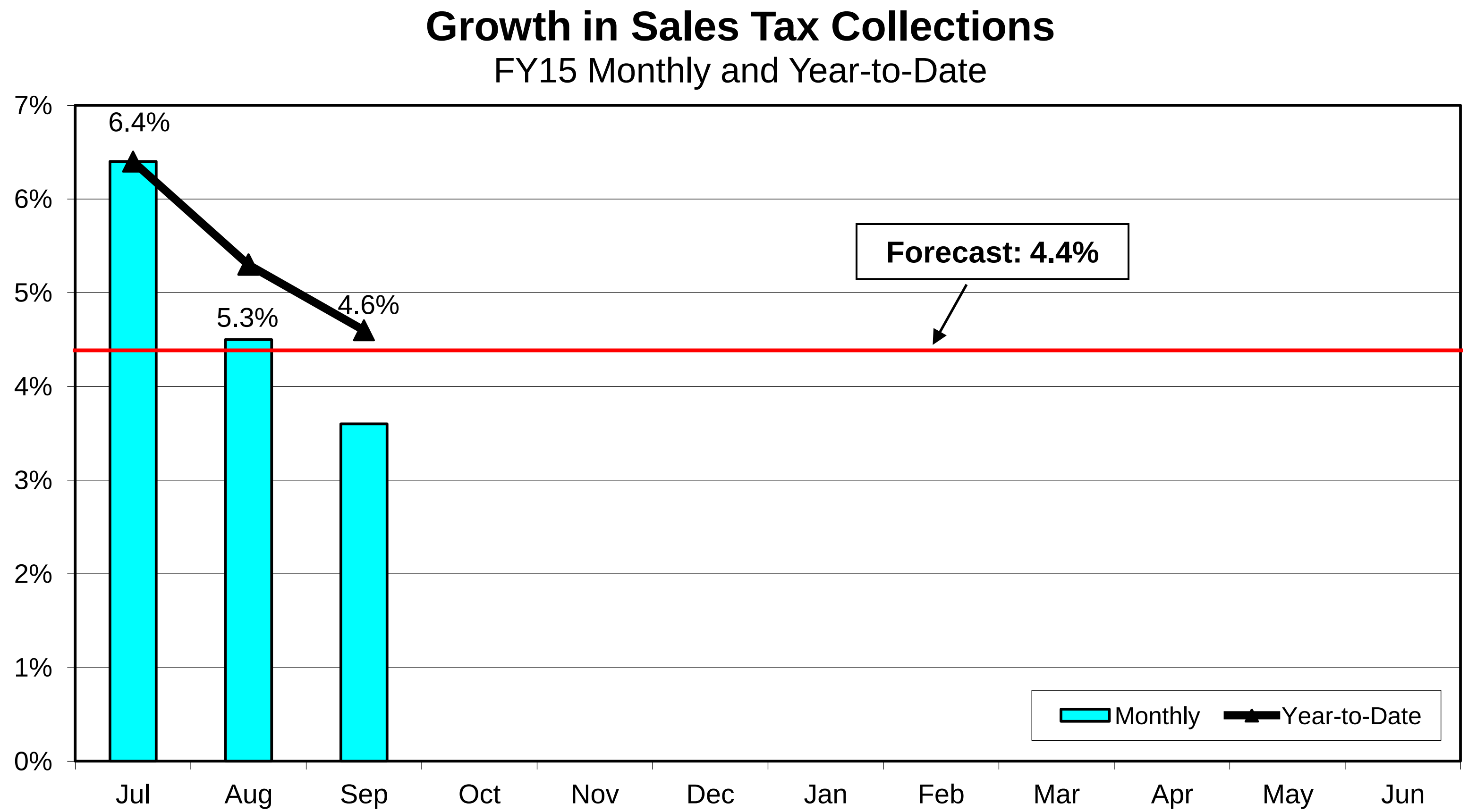
Individual Income Tax Refunds

- Not a significant month.

- Through September, TAX has issued $123.5 million in individual refunds compared with $118.6 million in the same period last year, a 4.1 percent increase and ahead of the annual estimate of 3.6 percent growth.

Net Individual Income Tax

- Through the first three months of the fiscal year, collections of net individual income tax increased 7.6 percent from the same period last year, ahead of the annual estimate of 3.4 percent growth.



Monthly Growth: 6.4% 4.5% 3.5%

- Collections of sales and use taxes, reflecting August sales, increased 3.5 percent.
- On a year-to-date basis, collections increased 4.6 percent, ahead of the annual estimate of 4.4 percent growth.
  - Adjusting for AST and HB2313, sales tax collections increased 3.0 percent through September, behind the economic-base forecast of a 3.4 percent increase.

Net Corporate Income Tax Collections

- Like nonwithholding, September is a significant month in corporate income tax collections since the first estimated payment for the fiscal year is due.
  - Collections in corporate income tax increased 6.9 percent in September.
  - This increased is due to widespread strength in payments from many large corporations.

- Through the first quarter of fiscal year 2015, collections in this source have increased 12.4 percent, ahead of the annual estimate of a 0.9 percent decline.

- Through the first quarter, 27.7 percent of the projected fiscal year’s gross corporate payments have been received.
  - This is ahead of the historical average of 22.6 percent.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 1.9 percent in September, but are down 6.1 percent on a year-to-date basis, behind the forecast of 1.2 percent growth.
  - This is the first positive month in 13 months.

Insurance Premiums Tax

- Monthly collections of insurance premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, until the required amount of $150.4 million has been booked.
  - Adjusted for this transfer, collections have increased 2.2 percent through the first quarter of fiscal year 2015 from the same period last year, behind expectations of 7.5 percent growth.

Summary of Fiscal Year 2015 Revenue Collections

July through September

Major Source	As a % of Total Revenues	YTD Actual	Annual Estimate	Variance
		Percent Growth over Prior Year		
Withholding	63.8 %	6.3 %	2.7 %	3.6 %
Nonwithholding	15.9	14.7	6.3	8.4
Refunds	(10.8)	4.1	3.6	0.5
Net Individual	68.9	7.6	3.4	4.2
Sales	19.0	4.6	4.4	0.2
Corporate	4.4	12.4	(0.9)	13.3
Wills (Recordation)	1.9	(6.1)	1.2	(7.3)
Insurance	2.0	n/a	7.5	n/a
All Other Revenue	3.8	(0.3)	(8.2)	7.9
Total	**100.0 %**	**6.7 %**	**2.9 %**	**3.8 %**

Sales (x HB2313 & AST)	3.0 %	3.4 %	(0.4) %
Total (x HB2313 & AST)	6.3 %	2.8 %	3.5 %

Summary of Fiscal Year 2015 Revenue Collections

July through September

General Fund Revenue Collection Trends

(thousands of dollars)

FY	Total Collections	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
		Revenue Collections Through:											
2000	10,788.5	699.1	1,435.8	2,503.0	3,210.6	3,977.8	5,080.0	6,067.5	6,704.5	7,374.1	8,411.9	9,663.1	10,788.5
2001	11,105.3	688.0	1,452.7	2,546.4	3,312.7	4,106.3	5,052.9	6,295.8	6,981.1	7,652.5	8,696.8	9,998.9	11,105.3
2002	10,679.0	705.4	1,483.7	2,485.4	3,315.4	4,136.9	5,071.2	6,184.7	6,794.7	7,459.8	8,388.0	9,414.6	10,679.0
2003	10,867.1	644.3	1,409.6	2,513.3	3,324.3	4,109.7	5,203.2	6,320.5	6,933.6	7,547.7	8,579.5	9,539.0	10,867.1
2004	11,917.9	699.3	1,553.7	2,724.3	3,618.2	4,449.1	5,570.2	6,721.0	7,377.9	8,130.2	9,393.7	10,423.6	11,917.9
2005	13,687.3	772.5	1,698.8	3,009.8	3,998.0	4,964.5	6,295.1	7,684.7	8,415.7	9,300.7	10,745.5	12,012.3	13,687.3
2006	14,834.3	840.5	1,987.8	3,445.8	4,510.5	5,537.3	7,006.6	8,542.7	9,306.7	10,273.3	11,758.2	13,253.6	14,834.3
2007	15,565.8	1,059.7	2,158.2	3,707.7	4,778.6	5,873.0	7,303.6	8,882.9	9,684.8	10,658.1	12,180.5	13,883.2	15,565.8
2008	15,767.0	1,095.6	2,231.1	3,842.1	5,023.2	6,085.2	7,540.8	9,175.5	9,916.1	10,920.8	12,664.1	14,131.9	15,767.0
2009	14,315.1	1,126.9	2,188.0	3,679.9	4,848.9	5,861.6	7,278.9	8,667.9	9,307.9	10,173.1	11,572.9	12,811.3	14,315.1
2010	14,219.5	1,036.2	2,027.7	3,407.0	4,482.0	5,465.7	6,960.9	8,258.9	8,861.4	9,752.5	11,157.9	12,394.4	14,219.5
2011	15,040.2	867.4	1,911.7	3,348.1	4,462.9	5,537.9	7,062.6	8,523.8	9,226.6	10,228.2	11,655.4	13,113.5	15,040.2
2012	15,846.7	955.4	2,080.6	3,573.2	4,722.6	5,903.2	7,356.7	8,868.2	9,692.1	10,770.1	12,347.9	13,927.3	15,846.7
2013	16,684.6	938.0	2,137.6	3,619.5	4,948.9	6,091.0	7,615.0	9,421.8	10,229.6	11,242.1	12,855.0	14,757.7	16,684.6
2014	16,411.4	1,059.9	2,201.4	3,722.3	4,980.1	6,134.4	7,670.6	9,371.5	10,151.7	11,242.9	13,017.7	14,526.7	16,411.4
Average	13,848.6	879.2	1,863.9	3,208.5	4,235.8	5,215.6	6,537.9	7,932.5	8,639.0	9,515.1	10,895.0	12,256.7	13,848.6
% of Total	100.0%	6.3%	13.5%	23.2%	30.6%	37.7%	47.2%	57.3%	62.4%	68.7%	78.7%	88.5%	100.0%
2015													
Budget	16,894.2	1,208.9	2,370.4	3,972.6	-	-	-	-	-	-	-	-	-
% of Estimate		7.2%	14.0%	23.5%									

Fall 2014 Forecasting Process

- The Joint Advisory Board of Economists (JABE) met on October 15th.
  - Members assessed recent economic developments and evaluated the revised economic outlook for the current and the next biennium.

- A meeting of the Governor's Advisory Council on Revenue Estimates (GACRE) will be held on November 24, 2014.
  - Members will evaluate JABE recommendations, revenue collections through October, and the associated revenue forecast.

- The subsequent economic and revenue outlook will serve as the basis for the Governor's amendments to the 2014-2016 biennial budget.